

**Statement of Michael L. Connor, Commissioner
Bureau of Reclamation
U.S. Department of the Interior
Before the
House Natural Resources Committee
Subcommittee on Water and Power
On
H.R. 2950
July 21, 2009**

Madam Chairwoman and members of the Subcommittee, I am Mike Connor, Commissioner of the Bureau of Reclamation. Thank you for the opportunity to provide the Department of the Interior's views on H.R. 2950. The legislation allows for prepayment of the current and future repayment contract obligations of the Uintah Water Conservancy District (District) of the costs allocated to their municipal and industrial water (M&I) supply on the Jensen Unit of the Central Utah Project (CUP). H.R. 2950 would amend current law to change the date of repayment to 2019 from 2037. The legislation would also allow repayment to be provided in several installments and requires that the repayment be adjusted to conform to a final cost allocation. The Department supports the goals of H.R. 2950. However, the legislation should be amended to clarify that the early repayment will be of an amount equal to the net present value of the foregone revenue stream. Under any repayment scenario, the Federal Treasury must be made whole.

The District entered into a repayment contract dated June 3, 1976, in which they agreed to repay all reimbursable costs associated with the Jensen Unit of the CUP. However, pursuant to Section 203(g) of the Central Utah Project Completion Act of 1992 (P.L. 102-575) the District's contract was amended in 1992 to reduce the project M&I supply under repayment to 2,000 acre-feet annually and to temporarily fix repayment for this supply based upon an interim allocation developed for an uncompleted project. The 1992 contract required the District to repay about \$5.545 million through the year 2037 at the project interest rate of 3.222% with annual payments of \$226,585. The net present value of the amount remaining from this income stream starting in 2009 is \$3,887,364.¹

However, the costs allocated to the contracted M&I supply, and the M&I supply available through additional contract amendments, may be significantly revised in the future upon project completion and Final Cost Allocation. An additional currently unallocated cost of \$7,419,513 is expected to be allocated to the contracted 2,000 acre-feet.² Assuming that the costs allocated to the contracted 2,000 acre-feet will be increased by \$7,419,513 with the reallocation in 2019, the net present value of the stream of benefits from this reallocation is \$4,654,454. Therefore, under Reclamation's assumptions, the net present value of the total stream of benefits anticipated under this contract is \$4,654,454 plus \$3,887,364, or \$8,541,818. The contracted M&I amount is \$4.1 million and the adjustment amount is \$7.4 million. In total non-discounted dollars, the Conservancy District owes the Federal government \$11.6 million.

¹ All net present value figures cited in this testimony were calculated by discounting the payment stream to the year 2009 using the rate from 30-year Treasury constant maturities for the week ending July 10, 2009. The exact net present value will fluctuate based on the date of the calculation and the Treasury rate.

² This allocation will be subject to revision should there be additions to the project.

Under Reclamation law, water districts are not authorized to prepay their M&I repayment obligation based upon a discounted value of their remaining annual payments.

This legislation would authorize early repayment by the Uintah Conservancy District to the Federal government. Because there is an interest component to the M&I repayment streams to be repaid early, early repayment without an adjustment for interest would result in lower overall repayment to the United States. However the Bureau believes that the language in this bill requiring that the early repayment be “under terms and conditions similar to those used in implementing section 210 of the Central Utah Project Completion Act (Public Law 102-575), as amended” is intended to require that the United States allow the early repayment in such a way as to keep the United States whole. We interpret this to mean that the Bureau of Reclamation would collect the present value of the whole amount that would be due without early repayment. Thus, given Reclamation’s assumptions the present value of the payments collected under this legislation will be at least \$8,541,818, although the legislation allows some flexibility in the timing of the repayment and under some scenarios the total amount due could be higher.

The language in H.R. 2950 should be amended to clarify that this legislation is requiring that the Federal government be paid what it is owed by the Conservancy District. In supporting the concept of early repayment of the amount owed under this contract, the United States is reserving the right to seek full repayment to the U.S. Treasury.

While the Department supports the goals of H.R. 2950, the legislation should be amended to clarify that the U.S. Treasury will be repaid in full; our support depends upon language that will clearly establish that early repayment under this legislation must be of an amount equal to the net present value of the foregone revenue stream.

This concludes my testimony. I will be pleased to answer any questions the Subcommittee may have.